

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 90-688-C - ORDER NO. 91-236
MARCH 28, 1991

IN RE: Petition of Ridge Telephone) ORDER INCREASING
 Company for an Increase in its) AUTHORIZED
 Authorized Rate of Return) RATE OF RETURN

On November 28, 1990, Ridge Telephone Company (the Company) filed a Petition with the Public Service Commission of South Carolina (the Commission) requesting an increase in its authorized rate of return on rate base. The Company did not seek any change in its basic rates and charges. The petition was filed pursuant to S.C. Code Ann. § 58-9-10, et. seq., (1976), S.C. Reg. 103-830, et. seq. (1976), and in response to a Commission Staff audit report which indicated that the Company's rate of return on rate base, after accounting and pro forma adjustments, was 9.43%, based on the twelve months ending December 31, 1989.

By letter dated December 7, 1990, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing in newspapers of general circulation in the effected areas, once a week for two consecutive weeks. The purpose of the Notice of Filing was to inform interested parties of the nature of the petition and the manner and time in which to file the appropriate pleadings for participation in the proceeding. Thereafter, the

Company provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene on behalf of Steven W. Hamm, Consumer Advocate for the State of South Carolina (the Consumer Advocate) was filed with the Commission.

On March 12, 1991, at 11:00 a.m., a public hearing was commenced in the Commission's Hearing Room. The Honorable Marjorie Amos-Frazier presided. M. John Bowen, Jr., Esquire, represented the Company; Raymon E. Lark, Jr., Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of Max R. Whitehurst, a Certified Public Accountant, to explain his accounting exhibits illustrating the Company's actual rate of return on rate base, to explain his adjustments to the Company's books, and to explain his opinion that the Company's currently authorized rate of return should be modified. The Commission Staff presented the testimony of Vivian B. Dowdy, Utilities Accountant of the Commission Administration Division, to summarize Staff's findings and recommendations. The Consumer Advocate did not present any witnesses.

The Commission found that the local rates requested in the Company's last rate adjustment proceeding in Order No. 77-483, issued in Docket No. 76-665-C, dated July 15, 1977, was fair and reasonable and would result in a rate of return on rate base of 6.03%. Hearing Exhibit 2. Accordingly, the Company's present authorized rate of return on rate base is 6.03%.

Witness Whitehurst testified that the Company is requesting the Commission to authorize a return on rate base in the range of 9.0% to 10.0%. In his opinion, a range of 9.0% to 10.0% is a reasonable rate of return on investment for the Company. Whitehurst stated that a range of rate of return would allow for some variation in operating results from year to year. Whitehurst emphasized that the Company was not seeking any changes in its rates in this proceeding but was requesting that the Commission adjust the authorized rate of return on rate base from the amount authorized in 1977 to the range of 9.0% to 10.0%.

The Consumer Advocate cross-examined Witness Whitehurst on his reasons for setting a return on rate base based on a rate of return on investment rather than a rate of return on common equity. Whitehurst explained that, like other independent, rural telephone companies in South Carolina, the Company is a small, closely-held utility whose stock is neither publicly nor regularly traded. Whitehurst explained that, in his opinion, it was inappropriate to compare the Company to the larger telephone holding companies whose approved return on rate base is based on a rate of return on common equity. Whitehurst testified that the Company's increased business risk due to recent financial changes from deregulation, declining revenues from access charges, implementation of Part 32 of the Uniform System of Accounts, and increasing costs for directory advertising is greater than that of the larger holding telephone companies and that small, independent telephone companies

have a greater difficulty in obtaining financing than larger telephone companies.

After a thorough review of the record and the evidence presented, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Ridge Telephone Company is a South Carolina corporation owning and operating equipment and facilities for the transmission of intelligence for hire in this state.

2. The Company's present authorized rate of return on rate base of 6.03% is insufficient to provide the Company an opportunity to earn a fair return on its rate base.

3. The Commission Staff conducted an audit showing that the Company's rate of return on rate base was greater than that previously authorized by the Commission.

4. In response to Staff's audit report, the Company stated that it would seek an authorized rate of return on rate base. The Company filed a petition on November 28, 1990, seeking an authorized rate of return on rate base.

5. The Company alleges a fair and reasonable rate of return is in the range of 9.0% to 10.00%.

6. The Company is not seeking any adjustments in its rates and charges.

7. Accounting and pro forma adjustments were made to the Company's books in order to illustrate the Company's present earnings to the Commission.

CONCLUSIONS OF LAW

1. The Company is a utility within the meaning of S.C. Code Ann. § 58-9-10(6)(1976). Consequently, the Company's intrastate operations are subject to the jurisdiction of this Commission.

2. Because accounting and pro forma adjustments were made in order to illustrate the Company's present earnings, the Commission need not determine the appropriateness of the adjustments.

3. Because the Company is a small, independent utility whose stock is wholly owned and is neither publicly nor regularly traded, this Commission will not make a determination as to the appropriate capital structure of the Company. Further, the Commission will not authorize a rate of return on equity.

4. Based upon the evidence, a fair and reasonable return on rate base for the Company is in the range of 9.00% to 10.00%.

5. This newly authorized rate of return on rate base will not affect the Company's present rates and charges.

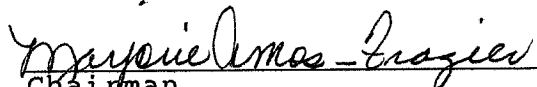
6. A rate of return on rate base ranging from 9.00% to 10.00% will allow the Company to meet its statutory requirements to provide adequate, efficient, and reasonable service, will provide a return to the Company's owners commensurate with returns on investments in other enterprises with corresponding risks, and will assure confidence in the financial integrity of the Company.

IT IS THEREFORE ORDERED.

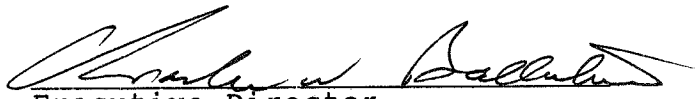
1. Ridge Telephone Company is hereby granted the opportunity to earn an authorized rate of return in the range of 9.00% to 10.00% on its South Carolina combined rate base.

2. This Order shall remain in full force and effect until further Order of this Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)